PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
900 Royal Bank Building
2010 – 11th Avenue
Regina, Saskatchewan
Canada S4P-0J3
Telephone +1 (306) 790-7900
Facsimile +1 (306) 790-7990

Private and Confidential

Mr. Larry Fogg
President & CEO
Saskatchewan Government Insurance
2260 - 11th Avenue
Regina SK S4P 0J9

June 20, 2002

Report on our Review of Surveillance Procedures Related to Personal Injury Claims

Dear Mr. Fogg:

We have now completed our review of the above-noted matter and provide hereunder our report. This report is in response to the request from Hon. Maynard Sonntag, the Saskatchewan government Minister responsible for Crown Investments Corporation of Saskatchewan and ultimately, Saskatchewan Government Insurance ("SGI"), to have these matters investigated after he was questioned in the Saskatchewan Legislative Assembly regarding SGI's surveillance activities. Below is our executive summary of the objectives of the review, our findings and recommendations, followed by our full report on the matter.

Executive Summary

The following executive summary of our findings and recommendations emanates from our review of the Company's policies and procedures relating to the Company's surveillance activities and certain specific events relating thereto. Accordingly, we have prepared this report as a result of our findings after reviewing:

- The policies and procedures employed by SGI as they relate to personal injury claims;

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- Whether or not these procedures were breached during the period covered by this review (January 1, 1998 to June 3, 2002);

- The circumstances surrounding the Ms. Virginia Cook case that became public in the Saskatchewan Legislature during the week of June 3, 2002; and

- The circumstances surrounding the transmission of apparently incomplete and/or inaccurate information to the Minister.

In summary, our review of the forgoing matters revealed that:

- Surveillance is a necessary investigative tool used in the insurance industry to combat insurance fraud and the policies and procedures employed by SGI as they related to surveillance of personal injury claims are reasonable and consistent with industry best practices;

- While no policy exists at SGI to preclude employing private investigation firms to perform surveillance assignments, the Corporation has made a practice of engaging qualified individuals, rather than private investigation firms, to perform such assignments on personal injury files because private investigation firms are more expensive;

- SGI's policies and procedures for conducting surveillance work were not breached during the period under review;

- SGI's Legal Department has no formal policy relating to the hiring of surveillance specialists, but has on occasion engaged them to gather information relative to a case that may proceed to litigation. When a claim file is sent to the Legal Department, the Claims Department has typically exhausted its ability to resolve the file and therefore the case requires independent attention. Accordingly, it is appropriate for the Legal Department to have the latitude to independently engage surveillance specialists to prepare a case for litigation;

- The surveillance performed in conjunction with the Virginia Cook case was conducted in accordance with the Corporation's policies and procedures;

- The Personal Injury Representative handling the Virginia Cook file initially communicated erroneous information to the claimant with regard to whether or not videotaping had been performed;

- Minister Sonntag was not knowingly misled by SGI senior management, however, communication of surveillance activity information to the Minister was based on the information that was available at the time and unfortunately, that information was not completely accurate; and

- The management information system presently used by SGI is not capable of providing accurate and timely information relative to the hiring and management of surveillance specialists and private investigative firms.

As a result of our review, we offer the following recommendations to clarify policies and to improve the handling and processing of claims information and files:

- SGI's Legal Department should develop a formal policy to document the decision-making process and approvals when they engage surveillance specialists to ensure complete accountability and transparency; and

- SGI's management information systems and accounting systems should be changed in order to be able to better capture and retrieve information on surveillance and investigation activities.

In the remainder of this document, we provide the full report of our findings and recommendations that resulted from our review and investigation into the foregoing matter.

Background and Overview

1. Saskatchewan Government Insurance ("SGI") is a Province of Saskatchewan owned insurance Corporation that provides no-fault automobile insurance coverage and other insurance related products and services for residents of Saskatchewan. SGI, like most other major insurance corporations in Canada, has instituted a fraud detection and prevention program that includes persons directed to conduct surveillance activities on claimants suspected of improper or irregular claims.

2. Generally, the object of surveillance is to assist in determining the credibility of claims by observing claimants performing activities that are physically inconsistent with injuries or abilities claimed. SGI's Special Investigations Unit ("SIU") coordinates surveillance activities when such investigative techniques are considered to be necessary.

3. On May 27, 2002, the Minister responsible for SGI, the Hon. Maynard Sonntag, ("the Minister") was questioned in the Legislative Assembly regarding to surveillance activities undertaken by SGI. Specifically, he was asked if SGI had employed Robinson Investigations ("Robinson") to conduct surveillance or otherwise investigate Saskatchewan residents who make SGI no-fault insurance claims. We understand that Robinson had been the object of media attention in the days prior to May 27, 2002.

4. On May 27, 2002, the Minister advised the Legislative Assembly that Robinson had been employed by SGI, but that with regard to specifics, he would take the question under advisement.

5. On June 6, 2002, the Minister responded to another question in the Legislative Assembly relative to the use of private investigators and private investigation firms. On that date, the Minister responded based on the inaccurate information that he had received from SGI on May 27, 2002, that the Corporation does not hire or employ private investigators or private investigative firms for the purpose of surveilling

Saskatchewan residents.

6. On June 7, 2002, the Minister apologized to the Legislative Assembly and advised that he had provided incorrect information to the Legislative Assembly. He advised that he had been given incomplete information and had directed the President of SGI ("the President") to review the circumstances of the case raised in the Legislative Assembly on June 6, 2002 and to ensure that SGI's policies regarding in-depth investigations are fully complied with.

7. On June 7, 2002 PricewaterhouseCoopers LLP was contacted by the President's office to undertake this review and on June 11, 2002, we were formally engaged to undertake the following:

   - A full review of the policies and procedures employed by SGI as they relate to surveillance of personal injury claims;
   - Investigate whether or not SGI's policies and procedures have been breached in any way; the period of time to be covered by this review will be the past four and one-half years from January 1, 1998 to June 3, 2002;
   - Review the circumstances of the case relating to Ms. Virginia Cook that was the topic of discussion in the Saskatchewan Legislature during the week of June 3, 2002 and the subject of certain articles in the press therein and thereafter; and
   - Review the circumstances surrounding the transmission of apparently incomplete information to the Minister.

Confidentiality

8. We understand that all letters, reports, documents, conversations and other communications to and from us in furtherance of this review are privileged and to be revealed to no one without your expressed prior permission. You have the latitude to release this report in whole or in part as you determine necessary, subject to the restrictions in paragraphs 9. and 10. below.

Restrictions

9. We have prepared this report on your behalf. We understand that it will be used by you to determine what policies and procedures, if any, may have been breached by SGI employees and to take the appropriate remedial action if necessary.

10. We have not attempted to audit or otherwise verify the information presented to us, beyond the expressed scope stated in this report and will accept no responsibility for loss resulting from any person using or misusing this report. All comments and opinions made in this report are subject to the information sources reviewed or persons interviewed, as more fully disclosed in the body of this report. Further, we reserve the right to review and revise our comments based on additional information and documentation that may become available subsequent to the date of this report.

Our approach

11. You asked that we utilize SGI's internal audit staff to the extent possible. We completed the following tasks, some of which were completed with assistance from SGI internal audit staff, albeit our review was conducted independently:

    - Reviewed SGI policies and procedures relating to the identification of claimants for which surveillance is deemed of value, contracting, payment, monitoring and reporting of surveillance activities;

    - Identified claims and other files for review by identifying payments made through SGI's accounting system to all licensed private investigative firms in the Province of Saskatchewan, as well as all payments made to identified surveillance specialist individual contractors;

    - Reviewed SGI claim files for which payments were made to Robinson;

    - Reviewed SGI claim files for payments to other private investigation firms licensed in Saskatchewan in order to broaden the scope of our review to identify private investigation firms that were engaged by SGI to perform

surveillance assignments on personal injury claims;

- Reviewed SGI claim files for which payments were made to individual contractors hired to perform surveillance duties;

- Reviewed SGI accounting records pertaining to non-claim related payments for evidence of payments to private investigative firms;

- Reviewed the Virginia Cook claim file in detail relating to the subject of questions to the Minister on June 6, 2002 and considered these details in the context of existing SGI policies and procedures;

- Reviewed in detail a tort litigation file relating to the contracting of a private investigative firm to conduct surveillance and other enquiries respecting a claim in litigation;

- Interviewed the following key SGI personnel respecting the decision process undertaken in considering, approving and executing surveillance activities:

    - Earl Cameron, Vice President, Claims
    - Sherry Wolf, Assistant Vice President, Claims
    - Ken Lerner, Assistant Vice President, Legal
    - Betty Weigel, Assistant to the President
    - Wayne Miner, Manager, SIU
    - Don Phillips, Senior Counsel, Legal
    - Barb Hayden, Personal Injury Representative; and

- Interviewed the Hon. Maynard Sonntag, Minister responsible for Crown Investments Corporation, including SGI, and his Senior Ministerial Assistant – Mr. Don Delhomeau.

Our Findings

12. We present our findings under the following categories:

- Policies, procedures and practices
- Contracts with individual surveillance specialists
- Contracts with private investigation firms, including Robinson Investigation
- The Virginia Cook matter
- Information provided to the Minister

Policies, Procedures and Practices

13. We reviewed SGI written policy relating to the completion of surveillance on claimants and found that this policy has evolved over time. Following, we provide a chronology of the evolution of this policy:

- July 20, 1992: An internal memorandum established the policy whereby all investigations performed by outside firms or individuals were to be arranged, directed and administered by the Special Investigations Unit ("SIU").

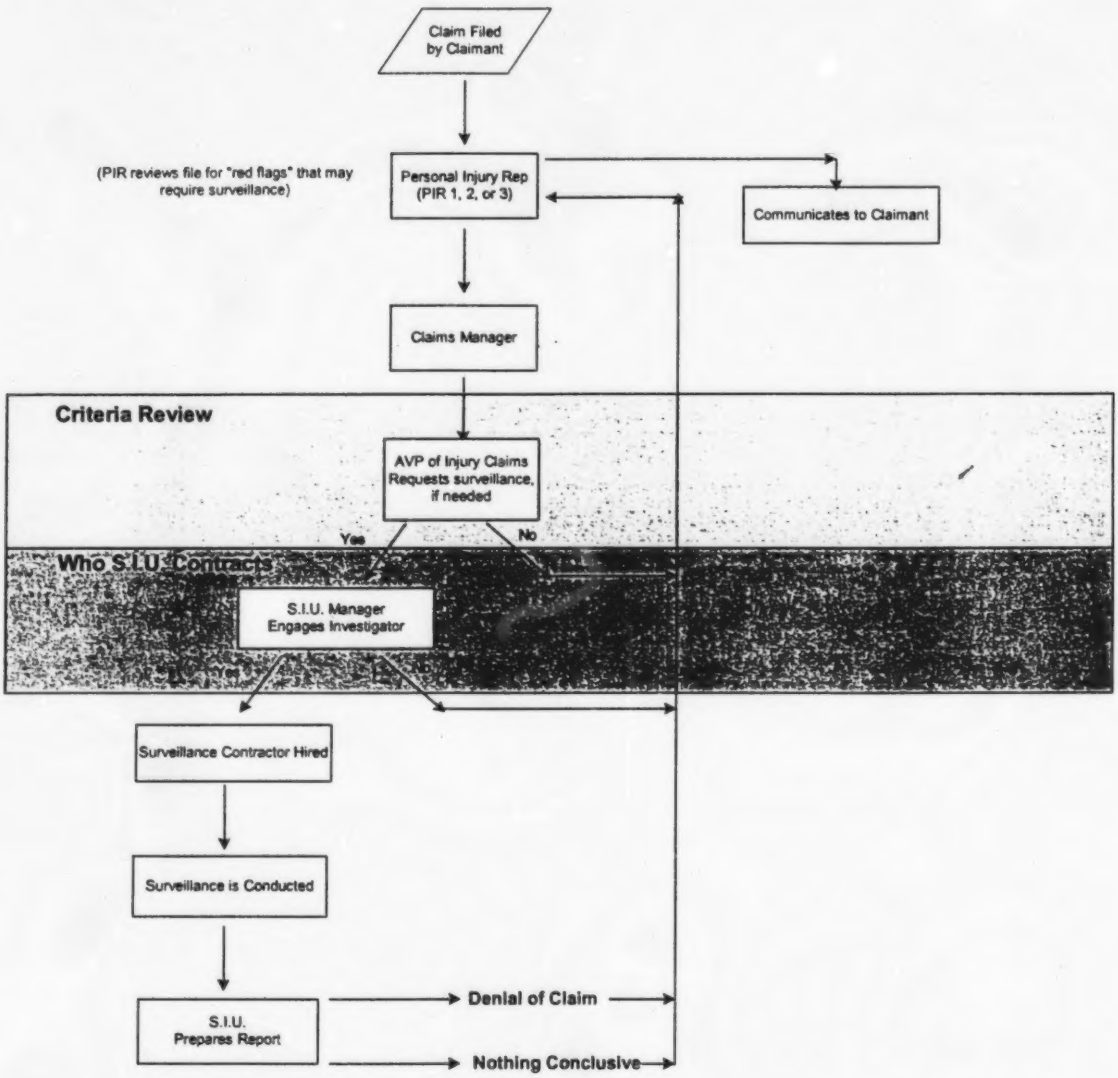
- 1995: With the introduction of PIPP (no-fault insurance), SGI created a policy and procedure manual for the Personal Injury Representatives ("PIR") handling these cases. Section 9 of that manual addresses independent investigations and surveillance. The policy relating to SIU's responsibilities was not changed. This policy primarily sets out guidelines for when cases should be referred to SIU, however, does not specifically address approval levels prior to SIU referrals. We understand that at this time, it was common practice for PIR's to obtain approval for surveillance activities from their local Manager, Supervisor, or Senior PIR before sending the file to SIU.

- June 1, 2000: The policy required that PIR's channel requests for surveillance through two area managers, who in turn would discuss the individual cases with the Assistant Vice President ("AVP") Injury Claims and seek approval from that level. This change was announced and followed up by e-mail directives on May 30 / 31, 2000. Subsequent to June 1, 2000, the policy was put "on-line" titled "Fraud Deterrence". If approved by the AVP Injury Claims, the requesting PIR would be instructed to contact SIU direct to arrange for the appointment of a surveillance specialist. SIU would then typically check with the AVP Injury Claims to ensure that the surveillance was approved.

- Fall 2001: The approval process for surveillance requests was changed to include approval at the Branch Manager level prior to submission to the AVP Injury Claims. Approval by the AVP Injury Claims results in SIU hiring, directing and administering the surveillance process. SIU reports the findings back to the PIR, who, depending on the nature of the evidence reported, may either terminate or proceed with the claim.

14. The following page provides a flowchart illustrating the present approval process for surveillance requests:

Personal Injury Claims Process (11 June 2002)



Comments respecting policies, procedures and practices

15. Generally, the policies and procedures and practices in place ensure that requests from PIR's to conduct surveillance on claimants are reviewed by sufficient levels of authority. However, during our file reviews we noted a general lack of consistency of documentation in the following areas:

    - The format of requests for surveillance by PIR's;
    - The identification of the various approval levels required; and
    - The level of approval required for contractor payments.

16. Our review did not locate any instances where surveillance requested by a PIR on a personal injury claim file appeared to have been completed without sufficient authority, on unreasonable grounds or in a reckless or unprofessional manner.

17. We did, however, review one matter where surveillance was ordered respecting a tort litigation file handled by SGI's Legal Department. This case was not brought to the attention of AVP Injury Claims and appears to have been completed outside of the policies, procedures and practices as detailed above. Injury claims policy is not sufficiently clear regarding the authority and approval process when a claim moves from the Claims area to the Legal department for further resolution. We comment in more detail on this case and this circumstance later in the report.

Contracts with individual surveillance specialists

18. In accordance with policy, the manager of SIU administers the contracting and administration of surveillance specialists. SIU maintains a list of six individual contractors who provide surveillance duties on a contracted case-by-case basis. These contractors are not full-time SGI employees. All are retired police officers and four of the six are not licensed private investigators.

19. All have been trained in surveillance techniques by the manager of SIU and have been briefed respecting acceptable surveillance practices. Acceptable surveillance practices prohibit the orchestration of events to observe reactions, such as placing heavy objects in a claimant's path to observe the physical ability to remove them. Surveillance and

videotaping is done in public places only and the audio portion of the recording is turned off. Should the claimant become aware or suspicious that they are being followed, the surveillance is aborted.

20. We reviewed correspondence directed to the Manager of SIU from the Executive Director of Law Enforcement Services, Saskatchewan Justice dated June 9, 1995. This correspondence provided the opinion that surveillance specialists who work exclusively for SGI would not require licenses under the ***Private Investigators and Security Guards Act***. We understand that two of the six surveillance specialist resources have become licensed under this legislation since June 1995 and therefore may accept private investigative assignments from other clients. The June 1995 correspondence went on to state:

> *"According to your letter, your program is facilitated by hiring, on a contract per claim basis, persons with demonstrated experience in conducting activity checks on bodily injury claims for SGI. In your case you are hiring employees to do a job for you and these individuals will be employees of SGI."*

21. We were told that surveillance activities were activated on insurance claimants only after approval was received from all appropriate levels of authority in accordance with the existing policy. We were also told SIU has adopted the operating practice that private investigation firms are not contracted to do surveillance on insurance claimants because of cost. Contract surveillance specialists typically charge SGI approximately half of the hourly rates charged by private investigation firms. Further, we were told that the contract surveillance specialists have been performing these duties for a number of years for SGI and their supervision requirements are therefore less than would be required of a "new" investigative firm.

22. Our analysis of claim files where surveillance specialists were contracted by SGI revealed that from January 1, 2000 to June 3, 2002, some 273 surveillance invoices were paid relating to services performed on 106 different personal injury claims. The total dollar value of these surveillance costs was approximately $195,500. The signing

authority for surveillance activity checks resides with the SIU since they request surveillance activities.

Comments regarding individual contract surveillance specialists

23. The manager of SIU maintains a resource list of six surveillance specialists that have provided a number of years of satisfactory performance. These contractors are used to contain costs to SIU. The contract surveillance specialists appear to be adequately experienced, trained and supervised. We saw no evidence of improper surveillance techniques or tactics. Private investigative firms who provide surveillance services have not been hired by SIU to complete surveillance duties on personal injury claimants, largely due to cost issues.

24. We reviewed 137 surveillance reports and related invoices for such services for the period from January 1, 2000 to June 3, 2002. The dollar value of the selected invoices totalled approximately $166,000. This sample represents approximately 85% of the total population. Our findings are as follows:

    - Surveillance activity was conducted with investigators under contract with SIU;
    - Surveillance investigators remained within public view at all times;
    - All decisions by the Personal Injury Representative (PIR) for surveillance activity checks, based on the file evidence, appeared to be reasonable and justified;
    - Nine (9) members of SIU have signing authority for surveillance activity checks;
    - All but two (2) invoices for surveillance activities were located. The missing invoices only represented 1% of the total items tested;
    - Thirty-four (34) surveillance invoices present in SIU's files in 2000 and one (1) invoice in 2001 were not formally approved for payment by anyone in

that department;

- AVP approvals were informal in nature either via telephone call and/or email;
- Instances occurred where the investigator, as documented in the file, was incorrectly listed as a member of SIU; and
- There were instances where the "Letter of Agreement" between the contract investigator and SGI was signed by the contractor but not by a SGI representative.

Contracts with private investigative firms, including Robinson Investigation

25. We completed computer-based reviews of all payments to Robinson, as well as all other licensed private investigative firms in Saskatchewan. We found that SGI routinely hires private investigative firms, including Robinson, to perform a variety of duties, such as:

    - Assistance to locate individuals;
    - Service of documents;
    - Interview and taking of statements; and
    - In one case only, surveillance duties.

26. As previously noted, although we did not find the claim files to be particularly well documented respecting the hiring of outside professionals, our review did not find any instances where in our view, professionals were hired for frivolous or inappropriate purposes or without adequate authority.

27. We reviewed a Legal Department tort litigation file where Robinson had been contracted to conduct a number of interviews and perform limited surveillance duties respecting a matter that was proceeding to trial. We interviewed the SGI lawyer who contracted Robinson and were told that the seriousness of the litigation and the impending trial compelled the SGI lawyer to contract with an independent firm with a proven record. Evidence relating to the surveillance findings may have been required

at trial and it was the lawyer's view that the long-standing contract surveillance specialists supervised by SIU did not provide the sufficient appearance of independence that the Court may demand. The lawyer further advised that he routinely contracted with a variety of outside professionals in order to defend SGI's interests, such as:

- Accountants;
- Polygraphists;
- Accident Reconstructionists;
- Aircraft Engineers;
- Chemists;
- Pharmacologists
- Handwriting experts; and
- Fire investigators.

28. We interviewed the AVP of the Legal Department. He advised us that he does not require the lawyers in his department to seek his approval to hire outside professionals to assist in litigation matters. He indicated that his lawyers are experienced professionals who do not require his input in order to prepare SGI's case. There is no written policy in the Legal Department relating to the hiring of outside professionals. The AVP advised that he was not aware of any policy that required SGI's Legal Department to submit surveillance or investigational requirements to the AVP Injury Claims or to SIU for approval prior to engaging their services.

29. The AVP of the Legal Department advised further that his legal staff often contract the handling of litigation matters to outside counsel. This contracting may be the result of an overburdening of his staff, a conflict of interest or some other reason. In these cases, the AVP Legal advised that any policy originating in SGI Injury Claims would not apply to decisions made by these outside counsel and that these outside counsel may hire a variety of professionals without SGI's prior knowledge or approval.

30. In order to identify the activities undertaken by various private investigational firms during the period under review, we performed a review of sixty (60) claim files for the period from January 1, 1998 to June 3, 2002. Our review focused on firms that provided security and/or investigation services, paying particular attention to files

where Robinson Investigations were contracted. Our findings are as follows:

- Cases involving Robinson Investigation included:
  - One (1) surveillance for independence reasons in the case of a litigation;
  - Twenty-six (26) for service of documents; and
  - Eight (8) for location of individuals.

- One (1) instance where someone other than the SGI contracted investigators performed surveillance. In this particular case, SGI referred a tort claims file to external legal counsel, which in turn, used Robinson Investigations to conduct the surveillance in order to achieve independence in the event that the investigator was called to testify; and

- All other licensed investigators or outside investigation firms were only used for land title and credit searches, forensic accounting, and security guards.

Comments relating to contracts with private investigative firms, including Robinson Investigation

31. Overall, we found the contracting of private investigative firms for the various identified functions to be reasonable. We found no instances of situations where inappropriate activities were undertaken. The SGI Legal Department failure to follow policy developed by the AVP Injury Claims does not cause us concern for the following reasons:

    - The Legal Department does not report to the AVP Injury Claims and therefore would not have been provided with the policy; and

    - It is not unreasonable to conclude that the nature of litigation must dictate that counsel preparing the case for court must have discretion about how to prepare the case for court.

32. However, to satisfy SGI's accountability goals, the Legal Department should develop a policy for contracting professionals on litigation matters. We discuss this issue in more detail under "Conclusions and Recommendations".

The Virginia Cook Matter

Overview

33. We conducted a thorough review of this file, which, as previously noted, was the subject of questions to the Minister in the Legislative Assembly.

34. We understand that Ms. Cook was involved in a motor vehicle accident on March 6, 1996. She submitted a claim shortly thereafter. [redacted]

35. On or about March 1, 2000, the PIR administering Ms. Cook's file received a telephone call from a female who refused to identify herself. The caller appeared to be familiar with Ms. Cook and her situation and advised the PIR that her symptoms may be exaggerated because she was working with horses, which requires some physical dexterity and strength.

36. Surveillance was subsequently approved according to existing policy and a contract surveillance specialist was identified. Surveillance was maintained from March 16 to April 4, 2000. The results were inconclusive and nothing was noted to be inconsistent to the injuries claimed. The SIU file was subsequently closed.

37. On January 4, 2002, Ms. Cook was advised that her benefits would end effective January 31, 2002. [redacted] In preparation of an appeal of that decision, Ms. Cook asked for a copy of her claim file from the administering PIR on January 18, 2002.

38. On March 3, 2002, after a review of her file, Ms. Cook asked the PIR handling her file to confirm that surveillance had been completed on her. Ms. Cook also asked that the

PIR confirm whether videotaping had been done. The PIR subsequently wrote Ms. Cook a letter confirming that surveillance had been conducted, however, noted in the letter, incorrectly, that videotaping had not been done. Ms. Cook subsequently found reference in her file that videotaping had been done and brought this to the PIR's attention on March 19, 2002. A copy of the videotape was located and provided to Ms. Cook on March 26, 2002.

Inaccurate information provided to Ms. Cook

39. We interviewed the PIR that administered Ms. Cook's file. She advised us that Ms. Cook came to her office around March 3, 2002 and requested confirmation that surveillance had been undertaken. They further requested confirmation that videotaping had been completed. The PIR readily confirmed the surveillance, however advised us that she was not entirely certain if Ms. Cook had been videotaped. By this time, the original source file was no longer in the PIR's possession, so she could not review the file to determine if videotaping was completed. The PIR subsequently provided Ms. Cook with written confirmation that surveillance had taken place and to her knowledge, no videotaping had been done.

40. The PIR advised us that she based her written remarks to Ms. Cook (with respect to the videotaping) on a conversation she recalled with the contract surveillance specialist during the surveillance activity. The PIR advised us that the contract surveillance specialist told her that the rural location of Ms. Cook's residence and her lack of activity basically provided nothing of substance for videotaping. Based on this conversation, the PIR doubted the existence of a videotape of the surveillance. We conducted a brief telephone interview with the surveillance specialist involved, who confirmed that the surveillance on Ms. Cook was inconclusive and that he had provided that opinion to the PIR.

41. Surveillance tapes were maintained in SIU and PIRs were only advised of exceptional circumstances where videotaping was used. Inconsequential surveillances resulted in the closure of the SIU file at the PIR level, with no further action. Videotapes are maintained in the custody of SIU and not forwarded directly to PIRs handling specific files.

42. The PIR subsequently learned from SIU that a videotape did exist relating to the Cook matter. The tape was subsequently copied and provided to Ms. Cook in a timely manner.

Comments relating to the Cook Matter

43. The request to conduct surveillance on Ms. Cook was well documented and appropriately approved. The actual surveillance was inconclusive and performed without incident by an experienced contract surveillance specialist. [redacted]

44. The letter provided to Ms. Cook on March 5, 2002 contained inaccurate information. The explanation provided by the PIR was reasonable, however, we are of the view that a more proper course of action would have been to verify complete information rather than rely on the basis of a two year old recollection of a telephone conversation. We do not believe that the PIR knowingly attempted to mislead Ms. Cook into believing that a videotape did not exist. However, we suggest that issuance of the letter to Ms. Cook with information to the contrary demonstrated a lack of professional judgement on the part of the PIR.

Information Provided to the Minister

45. We interviewed the VP Claims and were told that between May 27, 2002 and June 6, 2002, he discussed with the AVP Legal and the Manager of SIU the use of Robinson or any private investigation firms. The VP Claims indicated that he was advised by the Manager of SIU that SGI did not hire private investigation firms to do surveillance on no-fault insurance claimants and that the surveillance was done "in-house" by contract employees. He understood these contract employees to be former police officers who were paid on a hourly contract basis for surveillance activities. However, the VP Claims stated that he informed the Minister on May 27, 2002 that all surveillance was done "in-house" by SGI employees. The VP Claims did not explain the distinction between SIU employees and SIU contracted surveillance specialists on May 27, 2002.

46. The VP Claims advised us that it was his understanding that all surveillance conducted by SGI was arranged and directed by SIU and that it was his intention that the Legal Department also was subject of these guidelines. While this may have been the intent of the policy, it would appear that it was not thoroughly communicated to other departments (e.g. – Legal Department) and the Legal Department may have had an alternative view regarding the policy applying to them on files destined for litigation.

47. The VP Claims indicated that after providing initial information to the Minister on May 27, 2002, on June 7, 2002 he discovered that there were two exceptions to the policy whereby surveillance was conducted outside of SIU's administration. Each case originated within the Legal Department. The first case was ordered by SGI counsel and has been discussed in Paragraphs 27 and 28. The second case was a situation where outside counsel hired by SGI to defend a claim hired a private investigator to undertake surveillance. The second case is discussed in Paragraph 29. Both of these situations involved tort files that SGI was trying to settle from prior to the introduction of no-fault insurance in 1995.

48. The VP Claims reiterated that SGI has never denied that it conducted periodic surveillance on suspicious claims. Reports to the Board of Directors on such activity are done regularly and the Provincial Auditor reviews such expenditures during the yearly audit procedure.

49. We discussed this issue with the Manager of SIU and were told that he and his staff began June 7, 2002 to review the expenditures relating to contracts for surveillance for 2000, 2001 to the current date in 2002. This review was conducted manually and took approximately thirty (30) hours to complete. The conclusion of the SIU review was that all expenditures for surveillance duties during this time period were made to the contract surveillance specialists and there were no expenditures for surveillance to any private investigative firms. The results of this review were provided to the VP Claims on Monday, June 10, 2002.

50. We also interviewed the AVP Legal on this issue and were told that he was not aware of the hiring of Robinson for surveillance when initially asked by the VP Claims. He subsequently learned Robinson had been hired for surveillance duties on a litigation

matter and this information was transmitted to the VP Claims on June 7, 2002.

Comments relating to information provided to the Minister

51. After being questioned in the Legislative Assembly on May 27, 2002, the Minister requested and received specific information from the VP Claims on that same date relative to the use of private investigators and private investigative firms by SGI. On June 6, 2002, the Minister was asked similar questions in the Legislative Assembly and responded based on the inaccurate information received on May 27, 2002. On June 6, 2002, the VP Claims realized that the information that he had provided to the Minister on May 27, 2002 was inaccurate and incomplete. In particular, there was no clear information provided to the Minister regarding to the employment status of the contract surveillance specialists.

52. The VP Claims informed the Minister that SGI had completed eight (8) to ten (10) surveillance activity checks in 2001. The VP Claims did not make it clear to the Minister that this number was not an average, and was in fact lower than in previous years, due to a change in the policy from 2000. As a result, the Minister incorrectly informed the House and the media that eight (8) to ten (10) surveillance activity checks was an average for SGI.

53. Our review revealed no evidence that SGI personnel intentionally misled the Minister. To the contrary, senior management of SGI made considerable efforts to fulfill the Minister's requests.

54. The VP Claims' failure to provide the Minister with the distinction between hourly contract surveillance specialists working for SIU and conventional employees created confusion. As well, the fact that two of the hourly contract surveillance specialists are now licensed private investigators was not known by the VP Claims until the time of this review. This creates uncertainty as to whether surveillance on no-fault claimants is being conducted by SGI employees, contract surveillance specialists, private investigators or all of these.

55. This breakdown in communication was aggravated by the inability of SGI's information systems to provide accurate and timely information. The information that

was provided to the Minister was based on manual searches, paper file reviews and memory. This proved to be an inefficient and unacceptable method of responding to a request for information on a sensitive issue. If SGI had been recording expenditures for surveillance and investigative related matters in a more easily retrievable manner, sufficient information to fully and accurately brief the Minister could have been readily available.

56. The Minister was provided with incomplete and inaccurate information by senior management at SGI as a result of the following:

- A failure on the part of the VP Claims to fully brief the Minister on the precise employment circumstances of persons conducting surveillance for SGI; and
- An inability of SGI's information systems to provide precise, timely and accurate information relating to expenses incurred for surveillance and investigative activities.

Summary, Conclusions and Recommendations

Summary and Conclusions

- Surveillance is an investigative tool widely used in the insurance industry to combat insurance fraud and SGI uses this tool as considered necessary;
- The policies and procedures employed by SGI as they related to surveillance of personal injury claims are reasonable and consistent with our understanding of industry best practices;
- While no policy exists at SGI to preclude employing private investigation firms to perform surveillance assignments, the Corporation has made a practice of engaging qualified individuals, rather than private investigation firms, to perform such assignments on personal injury files because private investigation firms, are more expensive;

- We reviewed one instance where SGI's Legal Department had become involved in handling the file and where surveillance activity was not coordinated by SIU. We do not consider this to be a breach of policy because it was a judgement call on the part of the personnel in the Legal Department. From documentation available within the Corporation, it is not clear that Claims Department policies and procedures relating to engaging surveillance specialists are applicable to the Legal Department;

- SGI's Legal Department has no independent policy covering the hiring of investigators or surveillance specialists;

- The Virginia Cook surveillance activity was handled in a professional manner. The PIR who administered this claim exercised poor judgement in providing a statement in corresponding that no videotaping had been done on Ms. Cook when the PIR was not absolutely certain whether or not videotaping had been done;

- We found no evidence that SGI senior management knowingly misled the Minister. The Minister was provided with the most accurate information available at that point in time and unfortunately that information was not accurate;

- The VP Claims appears to have failed to clearly articulate the employment status of the contract surveillance specialists to the Minister, with the result being a lack of clarity as to whether these contractors were full time SGI employees or contractors.

- The management information system presently employed by SGI is not capable of providing accurate and timely information relative to the hiring and administration of surveillance specialists and private investigative firms.

Recommendations

In addition, from our review, we offer the following recommendations to improve the handling and processing of claims information and files:

- SGI's Legal Department should develop a formal policy to document the decision-making process and approvals when they engage surveillance specialists to ensure

complete accountability and transparency; and

- SGI's management information systems and accounting systems should be changed in order to be able to capture and retrieve information on surveillance and investigation activities.

The foregoing represents our full report relating to our investigation of the issues articulated in paragraph 7. Should additional information or discussion be required of the contents of this document, please do not hesitate to contact Howard E. Crofts directly at 790-7900.

Yours very truly,

Pricewaterhouse Coopers LLP

Chartered Accountants